

Message Text

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44

ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 AGR-20 CEA-02 CIAE-00 COME-00

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TAR-02 TRSE-00 USIA-15 PRS-01 SP-03 FEAE-00 OMB-01

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FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 4758

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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E. O. 11652: N/A

TAGS: ETRD, EFIN, BR

SUBJECT: COUNTERVAILING DUTY

1. FINANCE MINISTER SIMONSEN IS QUOTED IN AN ARTICLE IN THE O ESTADO DE S. PAULO OF JULY 27, 1974, AS HAVING TOLD A GROUP OF SHOE MANUFACTURERS IN NOVO HAMBURGO THAT THE COUNTERVAILING DUTY IMPOSED ON BRAZILIAN SHOES BY THE USG WAS (SIC) FIVE (5) PERCENT. THE MANUFACTURERS REPORTEDLY RECEIVED THE NEWS WITH A ROUSING WELCOME (FESTEJARAM O RESULTADO ... (COM) VIBRACAO). SHOE EXPORTERS ARE REPORTED ALSO AS HAVING SAID THAT THE IMPOSITION OF THE DUTY WILL PERMIT THEIR BARGAINING POSITION WITH AMERICAN IMPORTERS TO RETURN TO NORMAL AFTER THE UNCERTAINTY WHICH EXISTED DURING THE COURSE OF THE INVESTIGATION, THAT "THE RATE OF 5 PERCENT WILL NOT AFFECT THE SECTOR" AND THAT SHOE EXPORTS WILL REACH \$135 MILLION THIS YEAR.

2. THE ARTICLE GOES ON TO NOTE THAT TWO WEEKS AGO REPRESENTATIVES OF THE SHOE INDUSTRY HAD MADE A DECISION THAT IF

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THE COUNTERVAILING DUT REACHED 5 PERCENT THEY WOULD REQUEST

THE GOVERNMENT TO "...MAINTAIN THE CURRENT SYSTEM OF INCENTIVES, WHILE SEEKING, AT THE SAME TIME, NEW RULES GOVERNING RESOLUTION 71 OF THE CENTRAL BANK (WHICH PROVIDES SUBSIDIZED LOANS TO SHOE EXPORTERS) UNDER WHICH THE CREDITS WOULD BE CONCEDED AUTOMATICALLY WITHOUT RESTRICTIONS AS TO THE LIMITS, ADDITIONAL GUARANTEES, AVERAGE BALANCES OR RECIPROCITY, RETENSIONS OR OTHER EXIGENCIES ... (THAT THE BANCO DO BRASIL SHOULD BE AUTHORIZED TO OPERATE WITH THIS CREDIT LINE ... (THAT) THE INTEREST RATE SHOULD BE COVERED UP TO A MAXIMUM OF SIX PERCENT PER ANNUM ... AND (THAT) THE VOLUME OF EXPORTS SHOULD BE CONSIDERED -- IN ORDER TO UTILIZE THIS CREDIT -- AS 80 PERCENT (RATHER THAN THE CURRENT 64 PERCENT) ..."

3. COMMENT: THE REPORTED DECISION OF THE SHOE INDUSTRY REPRESENTATIVES IS THE CLEAREST INDICATION WE HAVE THAT THE GOB WOULD COME UNDER PRESSURE TO CHANGE THE EXPORT INCENTIVE SYSTEM IF THE LEVEL OF COUNTERVAILING DUTY IS CONSIDERED TO BE SUFFICIENTLY HIGH TO HAVE A SIGNIFICANT IMPACT ON SHOE EXPORTS TO THE U.S. WITH REGARD TO THE REQUEST FOR MODIFICATION OF ONLY THE SUBSIDIZED LOAN SCHEME IF THE DUTY IS WITHIN THE 5 PERCENT BAND, SHOULD THE MINISTRY OF FINANCE ACCEDE TO SUCH A PROPOSAL IT WOULD PROBABLY LEAD TO AN INCREASE IN THE LEVEL OF TOTAL SUBSIDY. HOWEVER, SINCE THE CURRENT COUNTERVAILABLE PORTION OF THE TOTAL SUBSIDY RESULTING FROM SUBSIDIZED LOANS IS ONLY 0.23 PERCENT, THE REQUESTED CHANGE IN RESOLUTION 71 WOULD HAVE ONLY A MARGINAL IMPACT. CRIMMINS

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